

Management Letter

University of Guam

Year ended September 30, 2022





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The Board of Regents
University of Guam

In planning and performing our audit of the financial statements of the University of Guam (the University) as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we identified deficiencies in internal control and other matters that we wish to bring to your attention:

Deficiencies

Revenue Recognition

Condition:

During the year ended September 30, 2022, the University recorded federal and Government of Guam grants and contracts amounting to \$1,986,758 and \$385,038, respectively that were earned in fiscal year ended September 30, 2021. Management did not perform detailed evaluations of the terms and conditions of the related agreements to ensure that revenues are recorded in the period earned.

Recommendation:

Management should ensure that controls are in place to ensure that the terms grant agreements are considered when recognizing revenues on an accrual basis.

Monitoring of Receivable from Grantors

Condition:

The University has no formal procedures to separate the receivable and advances from grantors for financial statement reporting purposes. During the year ended September 30, 2022, we proposed reclassification of \$5,678,920 to gross-up both the receivables and deferred inflows of resources-grants.

We also noted the liquidation period for receivable from grantors of \$340,776 may have passed. We also noted advances from grantors of \$215,003 that have been outstanding for greater than nine months.

Recommendation:

The University should improve its financial statements closing process to properly separate the receivables and deferred inflows of resources-grants at the end of each fiscal year. Management should also periodically monitor and close long-outstanding accounts due from or due to grantors.

Capital Assets

Condition:

We noted the following on our tests performed over capital assets:

1. Accumulated depreciation is understated by \$403,474. The University is monitoring its capital assets register manually. The University did not reconcile the capital asset register against its accounting records. Management has corrected this misstatement.
2. Certain air conditioning units and equipment of the University are observed to be unusable at the time of our physical observation. The equipment may potentially be impaired with an estimated loss of \$664,183. This is included in the statements of uncorrected misstatements.

Recommendation:

Management should establish review and reconciliation procedures over the capital asset registers. Management should also regularly perform physical verification of its fixed assets to determine their service utility to the University and to adjust the underlying accounting records as necessary.

Elimination Entries for External Reporting Purposes

Condition:

As part of the University's year-end financial statement close process, eliminations were not performed for the following internal accounts:

1. Other revenues related to indirect costs of \$4,468,436 and corresponding expenses,
2. Lost revenues of \$5,030,926 and a corresponding expense, and
3. Research Corporation of the University of Guam (RCUOG) administration fees of \$439,617

Management has corrected the misstatements, except the RCUOG administration fees.

Recommendation:

Management should eliminate all internal revenues and costs as part of its financial statement close process.

Timely Recording of Purchases and Accounts Payable

Condition:

The University records expenses and purchases when invoices have been approved for payment. As a result, the University's liabilities was understated by \$645,815.

Recommendation:

The University should (1) accrue liability when products or services are received and (2) reconcile its accounts payable balances to suppliers' statements on a regular basis.

Leases

Condition:

The University's leased asset and liabilities are understated by approximately \$303,000 as a result of (1) incomplete inventory of lease transactions and (2) extrapolating the errors noted in monthly lease payments tested.

Recommendation:

The University should ensure completeness of all lease transactions and accuracy of monthly lease payments in calculating the leased assets and liabilities.

Others

Pensions

Condition:

During our testing of the pension participant data, we identified discrepancies between the employee information currently maintained by the Government of Guam Retirement Fund (GGRF) and that of the University despite the University's timely submission of personnel action changes to GGRF.

Recommendation:

Management should regularly communicate with GGRF to ensure that employee information being utilized by GGRF is up to date.

This communication is intended solely for the information and use of management and the Board of Regents of the University, others within the organization and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP